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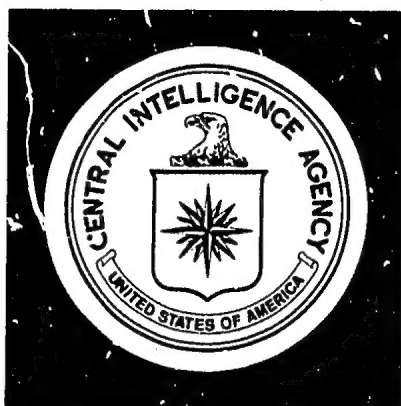
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Guyana's Bauxite Industry
Since Partial Nationalization*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1972

INTELLIGENCE MEMORANDUM

**GUYANA'S BAUXITE INDUSTRY
SINCE PARTIAL NATIONALIZATION**

INTRODUCTION

1. Since taking over the bauxite and alumina properties of the Aluminum Company of Canada (Alcan) on 15 July 1971, the government-owned Guyana Bauxite Company (GUYBAU) has been unable to prevent a sales decline. Its marketing problem is the result of reduced Alcan purchases coinciding with generally weak aluminum demand and excess bauxite supplies. GUYBAU's difficulties have hurt the economy and delayed expected government moves against Guyana's other bauxite firm, Reynolds Guyana Mines (RGM) -- a subsidiary of the Reynolds Metal Company. This memorandum discusses GUYBAU's performance, its implications for RGM, and the impact on Guyana's economy. It also examines the repercussions in other Caribbean countries and assesses the short-term outlook for Guyanese and world bauxite sales.

DISCUSSION

Background

2. Prime Minister Forbes Burnham nationalized Alcan's properties as part of his program of greatly expanding government control of resource exploitation. Alcan's subsidiary, the Demerara Bauxite Company (DEMBA), was Guyana's largest enterprise, having some 5,000 employees and sales estimated at US \$55 million in 1970. With nationalization, the government gained control of nearly three-fourths of the bauxite mining and all of the alumina refining capacity. RGM owns the remaining bauxite capacity.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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3. Under the nationalization settlement, Guyana agreed to pay \$53.5 million - approximately the book value of the properties - over 20 years, with an effective interest rate of 4.5%. The first annual payment, about \$4.7 million less taxes of \$1.25 million owed for 1971, is due on 31 December 1972. Guyana obtained the right, however, to defer temporarily up to 40% of the first four annual payments and 30% of the remaining payments. Alcan refused to make a long-term commitment to purchase GUYBAU's output but agreed, for the remainder of 1971, to market the calcined bauxite* and purchase a little more than one-half of a normal six-months' output of metal-grade bauxite and alumina.

Developments Under Government Ownership

4. GUYBAU initially had considerable difficulty maintaining output at the former Alcan facilities. Material supplies were nearly exhausted, and DEMBA's failure to carry out routine maintenance in the final months had left the facilities in a seriously rundown condition. Moreover, some 50-75 departed managers and technicians were replaced, mainly by upgrading Guyanese employees. Operational problems nevertheless appear to have been overcome. For example, output of calcined bauxite - which is easily marketed because Guyana has a virtual world monopoly - has been increased above the pre-nationalization level.

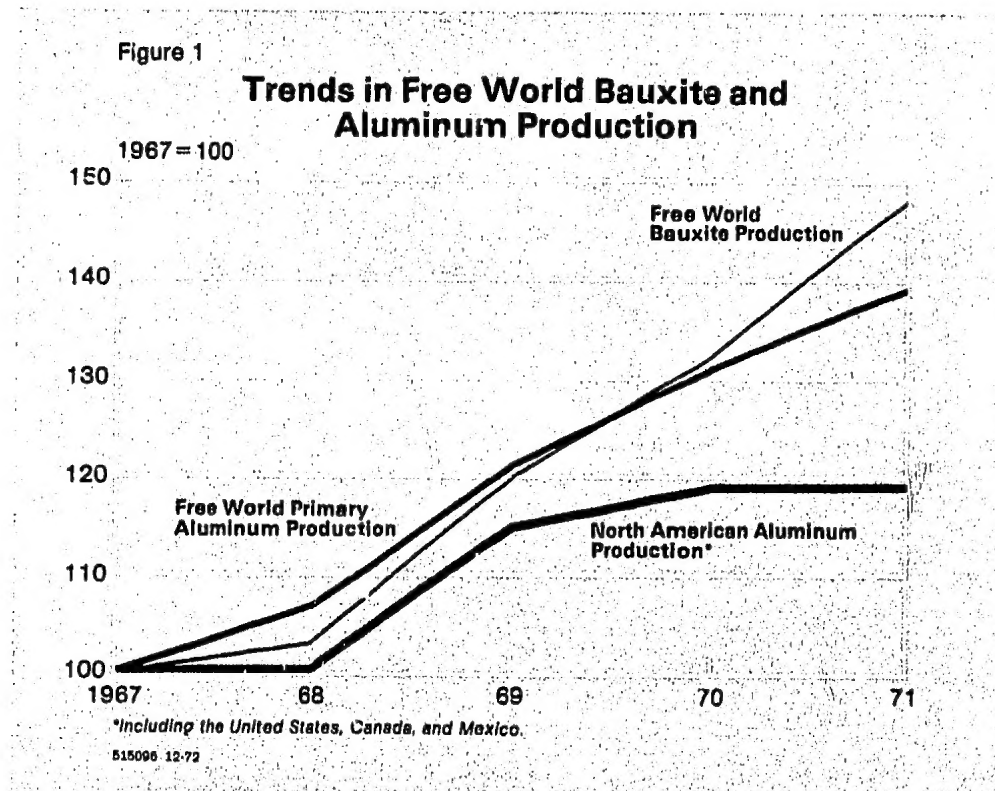
5. Alcan has bought less of the metal-grade bauxite and no alumina this year, and finding new customers has proved difficult. GUYBAU's sales efforts have been hampered by the market's domination by Alcan, Reynolds, and four other multi-national companies, which control most of their supply sources. Sales also have been impeded because long-term contracts govern most other transactions. This practice initially limits the market for new sellers to customers making up temporary shortfalls from their normal suppliers. Even in this market, GUYBAU is in a poor competitive position because it is a high-cost producer. These problems have been aggravated by the excess supplies and weakening prices resulting from the recent sluggish growth of North American aluminum production (see Figure 1).

6. Because of these handicaps, Guyana has had little success in finding permanent customers in Japan, India, Yugoslavia, and the Communist countries through diplomatic channels. Resort to commercial channels with the help of Gerald Metals Company of London also has been largely fruitless. In the second half of 1971, GUYBAU managed to sell 50,000 long tons of metal-grade bauxite and - with the aid of a sharp price cut - 55,000 tons of alumina to transitory customers, mainly

* Calcined bauxite, made from exceptionally high-quality ore, is sold for non-metallic uses.

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Communist countries. Alcan's purchases and these sales permitted alumina output to be maintained and limited the production decline for metal-grade bauxite to one-third (see Figure 2.) Moreover, GUYBAU prevented a significant drop in the enterprise's sales revenues by boosting prices of calcined bauxite about 20%. Total sales amounted to \$26 million during July-December, compared with an estimated \$28 million during January-June, and GUYBAU earned an after-tax profit of \$3.5 million.

7. Lack of customers has brought further production cuts and a small revenue decline in 1972. Output of calcined bauxite has slipped a little but remains above the pre-nationalization level, thanks to GUYBAU's aggressive new marketing agent, Philipp Brothers of New York. Although buoyed by transitory purchases of 600,000-900,000 tons by Alcan and the Harvey Aluminum Company, output of metal-grade bauxite probably will

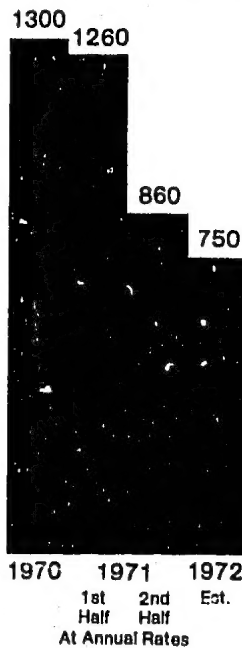
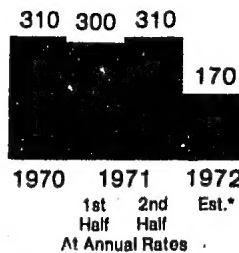
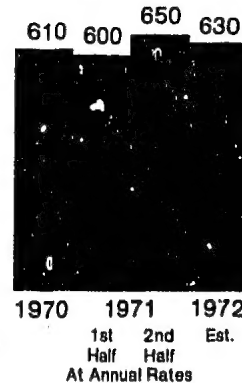
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Figure 2

Output of the DEMBA/GUYBAU Facilities

Thousand Long Tons

Metal Grade Bauxite**Alumina****Calcined Bauxite**

*Output is assumed to equal sales.

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reach little more than one-half of normal. Alumina sales may be confined to the 170,000 tons (about 55% of normal output) that the USSR and the People's Republic of China bought through August at close to GUYBAU's cost. GUYBAU's total sales in 1972 are likely to approximate \$49 million, a 9% decline from 1971.

Aluminum Company Situations

8. GUYBAU's difficulties have delayed the expected nationalization moves against Reynolds' properties. The delay has given Reynolds time to reduce its already small degree of dependence on Guyanese bauxite. The Reynolds operation normally produces 1.2 million tons of bauxite annually (about 15% of the company's total output), and about two-thirds is sold to other firms, particularly Alcan. During 1972, Reynolds has cut back

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its Guyana output by about one-third and taken steps to expand capacity at its holdings in Jamaica, which provide one-half of its supplies, and in Haiti. Reynolds also has taken a long-term option on 50 million tons of Australian alumina and pursued negotiations with Surinam for jointly exploiting its large bauxite deposits.

9. Alcan has been able to achieve substantial cuts in purchases from GUYBAU without pinching its bauxite supply. This was possible even though DEMBA originated roughly one-third of its output, including supplies for a Quebec alumina facility designed to process the type of bauxite found only in Guyana and a few other countries. Alcan met its essential requirements for Guyanese ore by stepping up purchases from RGM. Adjustment was facilitated by the weak demand for aluminum, which forced a 15% drop in the company's aluminum output.

Impact on Guyana's Economy

10. DEMBA's nationalization has put Guyana's budget and balance of payments under pressure, but matters are not serious enough so far to hurt Burnham politically. Anticipating the takeover, DEMBA paid no taxes in the second quarter of 1971, and GUYBAU apparently was too short of cash to make more than a token payment. Reduced receipts from the enterprise kept 1971 government revenues 6% below the 1970 level and helped to boost the deficit from 20% of expenditures to 31%. Reduced sales by both GUYBAU and RGM have cut government revenues further in 1972. Moreover, GUYBAU's tax-paying ability is limited by its obligation to pay Alcan at least \$2 million on 31 December. If the government has spent as much as originally planned, the 1972 deficit may reach 40% of outlays. As was true last year, most of the deficit probably is being financed with borrowing from the banking system.

11. The deteriorating foreign investment climate has reduced capital outlays and is holding this year's economic growth rate well below the 4% average of 1969-71. Although significant consumer price increases were not in evidence up to May 1972, the enlarged government deficit probably has caused inflationary pressures recently. So far, the balance of payments has not been strained seriously (see the table). In 1971, reduced bauxite and alumina sales and a small net outflow of direct private investment were outweighed by booming sugar sales, government short-term borrowing, and transfer of DEMBA's pension fund from Canada to Guyana. In 1972, reduced profit remittances probably have helped to offset the decline in bauxite and alumina sales to something like \$57 million, compared with \$67 million in 1971. Nevertheless, foreign reserves dropped about 10% from December 1971 to August 1972 and probably will remain below the 1971 figure.

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	<i>Million US \$</i>		
	<i>1969</i>	<i>1970</i>	<i>1971^a</i>
Payments balance	-4.7	-1.6	5.2
Current account balance	-13.6	-19.9	-4.6
Trade balance	6.6	-4.1	6.4
Exports (f.o.b.)	123.8	129.0	137.1
Of which:			
Bauxite and alumina	60.1	69.2	66.8
Imports (c.i.f.)	117.2	133.1	130.7
Investment income	-18.0	-14.8	-14.0
Other services	-2.2	-1.0	3.0
Capital account balance	13.6	16.5	14.4
Net receipts of official capital	9.9	10.4	13.8
Direct investment	1.3	0.3	-1.0 ^a
Loans	8.6	10.1	14.8 ^a
Net receipts of private capital	3.7	6.1	0.6
Direct investment	8.7	6.1	-4.0
Other	-5.0	0	4.6
Errors and omissions	-4.7	-0.7	-6.7
Special drawing rights allocation	0	2.5	2.1

a. Does not reflect DEMBA's nationalization, which has the effect of reducing direct investment by \$53.5 million and increasing loans by a like amount.

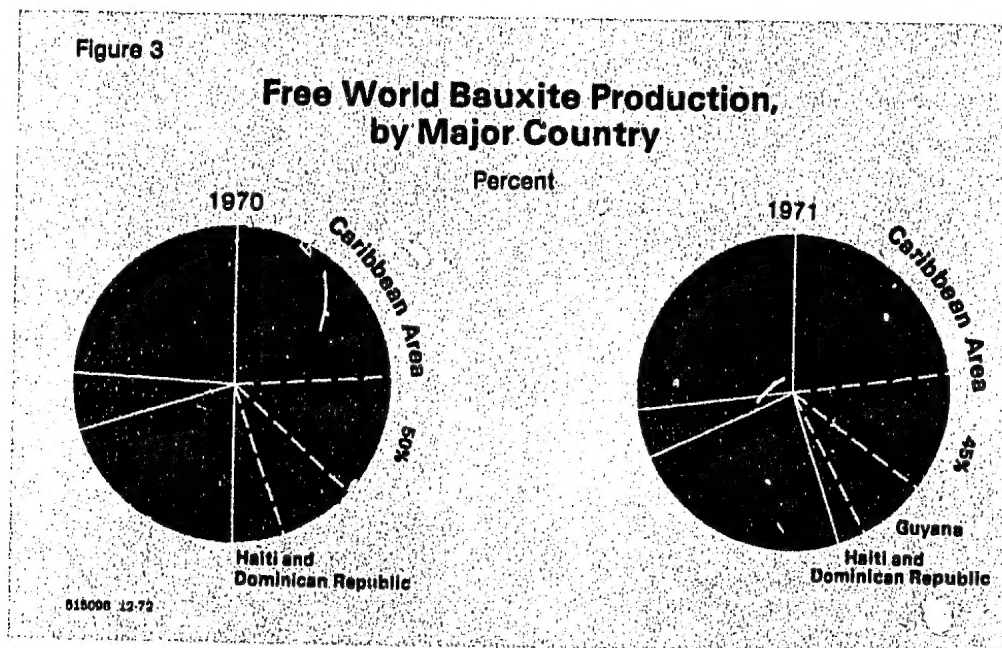
Repercussions in Other Caribbean Countries

12. GUYBAU's difficulties have provided an object lesson for nationalists in the other four Caribbean-area bauxite-producing countries -- Jamaica, Surinam, the Dominican Republic, and Haiti. The governments of Surinam and particularly Jamaica have been under some pressure from militant black nationalists and other opposition groups to claim greater participation in resource development and to obtain larger profit shares from the foreign-owned bauxite operations. GUYBAU's experiences, however, would appear to make nationalization considerably less attractive to all but the most ardent nationalists in the Caribbean area. Nevertheless, these two governments have continued to seek greater bauxite tax revenues and increased local processing of bauxite to provide more jobs. To this end, they have engaged during the past year in joint conferences to exchange information as a means of improving their bargaining positions with the companies.

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13. Contrary to most observers' expectations, Guyana's nationalistic moves have not hurt the other Caribbean bauxite producers. Although the Caribbean area's share of Free World bauxite output slipped from 50% in 1970 to 45% in 1971 (see Figure 3), the drop reflects weaknesses in the



North American aluminum market and GUYBAU's difficulties rather than diminishing company confidence in other Caribbean countries. In Jamaica, a \$300 million expansion program initiated by Alcan, Reynolds, and other US aluminum companies in the late 1960s apparently is proceeding on schedule. Reynolds still plans a large expansion of its Surinam operation. This investment could total \$400 million over the next 10 years, eventually boosting Surinam's bauxite output about 20% and greatly increasing the share processed into alumina. In addition, a 10% expansion of Reynolds' operations in Haiti probably will be initiated during the next year or so.

Short-Term Outlook and Conclusions

14. GUYBAU's sales prospects over the next two or three years are not good. The company's present position will be improved a little if Alcan follows through on its recent promise to increase purchases of metal-grade bauxite in 1973-74. GUYBAU probably will also benefit from somewhat larger sales of metal-grade bauxite and alumina to other customers as world demand for aluminum strengthens. Nevertheless, its lack of permanent customers and relatively high prices probably will help to keep total sales from rising significantly above the peak 1970 level.

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15. The outlook for RGM is less clear. As an ardent nationalist, Burnham is determined to gain at least majority control over RGM. His resolve probably has been strengthened by Reynolds' cutback of the Guyanese operation while planning expansions in Jamaica, Surinam, and Haiti.

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Nevertheless, GUYBAU's problems may cause him to continue to hesitate. Burnham presently may not wish to risk loss of Guyana's sugar quota in the US market, which brought a \$6 million subsidy in 1971, or of US economic assistance, which has averaged \$7.5 million annually over the last decade.

16. Nationalization, however is a highly popular political issue, and a new move in this direction would enhance Burnham's image at the expense of the principal opposition leader, Marxist Cheddi Jagan. When Burnham does press his demands, nationalization of the RGM properties seems the likely outcome. Reynolds has even less economic reason than Alcan had to accept the terms and probably will reject them. The book value of Reynolds' Guyanese properties is only about \$20 million, of which \$14.3 million is covered by a US government expropriation guaranty. Moreover, Reynolds believes that any display of weakness in the face of government pressure would expose its much larger holdings in Jamaica to similar nationalistic demands. If RGM is taken over, Burnham is likely to offer compensation along the lines of the Alcan settlement. Nevertheless, the company may well file a claim under its expropriation guaranty, arguing that the compensation is neither prompt nor adequate and that in any case Guyana probably will be unable to pay it.

17. Even if Burnham refrains from nationalizing the RGM properties, Guyana's economy will remain depressed over the next two or three years. Although bauxite and alumina sales may recover to the 1970 level, sluggish export earnings will retard expansion of the economy, which is heavily dependent on imports for materials, fuels, and capital goods. Growth also will be held back by the lack of private foreign capital inflows, which have been largely responsible for gains made since the early 1960s. Although Burnham can depend on some foreign assistance, budget strains will severely limit the government's ability to expand public investment. The economic situation will be even worse if Burnham nationalizes the RGM properties, because Reynolds would be unlikely to buy Guyana's bauxite and compensation payments would be larger. Thus, whether or not RGM is taken over, prospects are for slow growth, balance-of-payments strains, and -- perhaps -- mounting inflationary pressures.

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18. In view of Guyana's troubles, other Caribbean governments seem unlikely to follow the nationalization path in the next few years. Nevertheless, they will be carefully watching GUYBAU's performance and the outcome of the prospective nationalization moves against Reynolds. In doing so, they will be comparing the benefits of their policies of restraint with those that Guyana might obtain. Any substantial progress by Guyana will stimulate their demands for greater revenues and possibly bring pressure for partial nationalization. On the other hand, if Guyana's nationalization actions continue to be self-defeating economically, the countries' demands probably will be tempered. In either case, domestic political pressures to follow Burnham's example may force some governments to take more aggressive positions. Surinam and Jamaica already have announced, for example, that any new bauxite and alumina undertakings must provide for government equity participation.

19. While a new nationalistic action by Guyana will disturb the aluminum companies, it probably will affect their actions only temporarily. Whether or not RGM is nationalized, the companies probably will press on with their expansion programs in the other bauxite-producing countries in the Caribbean area. Although the Caribbean area's share of Free World bauxite output probably will slip to 40%-45% by 1975, this will mainly reflect company efforts -- begun before the Alcan expropriation -- to take advantage of the more favorable bauxite reserves of Australia and Africa rather than immediate fears of a domino effect from Guyana's nationalization moves.

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